Imperial Oil Limited/Annual report 1967

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Annual report 1967

Imperial Oil Limited
Incorporated under
The Canada Joint Stock
Companies Act, 1877
on September 8, 1880

Head Office
111 St. Clair Avenue West
Toronto 7, Ontario

Imperial Oil Limited shares
may be transferred at the
following offices:
Head Office,
Imperial Oil Limited
Principal Offices,
Montreal Trust Company
Halifax Nova Scotia
Montreal Quebec
Toronto Ontario
Winnipeg Manitoba
Regina Saskatchewan
Calgary Alberta
Vancouver British Columbia
Bankers Trust Company
New York, New York

Principal Subsidiaries
Atlas Supply Company of
Canada Limited
Toronto,
Ontario.
Building Products of
Canada Limited
Montreal,
Quebec.
Champlain Oil Products Limited
Montreal,
Quebec.
Home Oil Distributors Limited
Vancouver,
British Columbia.
Imperial Oil Enterprises Ltd.
Toronto,
Ontario.

Annual General Meeting
of Shareholders
11:00 a.m., Tuesday
April 23, 1968
Canadian Room
Royal York Hotel
Toronto, Ontario

Contents

Directors
J. A. Armstrong
J. A. Cogan
J. W. Flanagan
L. D. Fraser
J. W. Hamilton
A. C. Harrop
T. F. Moore
R. S. Ritchie
V. Taylor
W. O. Twaits

Officers
president
W. O. Twaits
executive vice-president
J. A. Armstrong
vice-president
J. A. Cogan
vice-president
L. D. Fraser
vice-president
T. F. Moore
vice-president
V. Taylor
general secretary
G. M. Henderson
comptroller
G. R. McLellan
treasurer
D. W. McGibbon

general counsel
J. F. Barrett Q.C.

"Cartier", the new typeface
used in this annual report,
was designed for Canada's
centennial by the
late Carl Dair.

Financial and Operating highlights

Financial

Earnings of $95 million were up three per cent over 1966.
Dividends totalled $2.10 per share, an increase of five per cent over the previous year.
Capital and exploration expenditures amounted to $165 million.
Through a debenture issue, $50 million was secured to provide money for expansion of marketing, refining and chemical operations.

Exploration and Production

Exploration was at a high level with continued emphasis on the Rainbow-Zama area of northern Alberta.
Imperial's search for minerals was expanded with parties active in many parts of Canada.

Transportation

The supertanker Imperial Ottawa went into service.
Construction started on a products pipe line from Imperial's Montreal East refinery to supply points in Quebec's eastern townships.

Chemical products

Three new chemical plants went on stream; two others were expanded.
Construction began of a fertilizer manufacturing complex near Redwater, Alberta.

Petroleum products

The company continued the major refinery expansion and modernization program which started in 1965.
Sales increased four per cent.
Twelve more automotive service centres were opened and construction started on another ten.
The home appliance line was broadened with the inclusion of items such as humidifiers.

Financial data

		1967	1966
		dollars in thousands *except per share amounts*	
Earnings	$	95,515	92,408
per share	$	2.98	2.90
as a percentage of revenues	%	7.2	7.7
as a percentage of capital employed at January 1	%	9.8	9.8
as a percentage of shareholders' investment at January 1	%	11.5	11.5
Dividends paid to shareholders	$	67,050	63,500
per share	$	2.10	2.00
as a percentage of earnings	%	70	69
Shareholders' investment at year end	$	870,038	830,147
per share	$	27.15	26.11
Capital and exploration expenditures	$	164,978	139,801

Operating data

	1967	1966
	thousands of barrels per day	
Petroleum product sales	370	356
Crude oil processed at refineries	350	346
Crude oil production		
gross	163	146
net	141	127
Natural gas production	millions of cubic feet per day	
gross	334	258
net	283	218
Gross recoverable reserves*		
crude oil (millions of barrels)	1,517	1,534
natural gas (billions of cubic feet)	2,860	2,964

*After allowing for production to date, these are estimated reserves which the company feels can reasonably be considered as proved. The estimate is based on present knowledge of the size and nature of the producing reservoirs.

Report to the Shareholders/*For the fiscal year ending December 31, 1967*

The year 1967 was one of continued progress for Imperial Oil. Earnings and dividends increased; production of crude oil and natural gas, and volumes of products manufactured and sold, reached new highs.

The oil industry also set records in all phases of operations. Industry sales of petroleum products rose six per cent over the previous year. Domestic requirements for crude oil increased again, and these, combined with increased export demands resulting from the Middle East dislocations, resulted in a 10 per cent growth in total production. In 1967, for the first time, exports of crude oil and natural gas liquids were essentially in balance with crude oil imports. Natural gas sales, reflecting rising domestic and export demands, improved 11 per cent.

Exploration continued at a high level, although at a more modest rate than in 1966 when there was a very rapid increase in the search for oil and natural gas. The industry's producing operations continued to be influenced by Alberta's revised well-spacing regulations, which have contributed to major economies in development drilling and field production costs.

The company continued its major exploration program for oil and natural gas with ventures in the Northwest Territories, the three westernmost provinces, and offshore on the Grand Banks some 200 miles southeast of Newfoundland. Again there was emphasis on the Rainbow-Zama area of northern Alberta, where more than 75 per cent of the wells drilled by the company were successful in 1967. Imperial's search for minerals was expanded, with parties active in many parts of Canada.

Product demand continued to expand in 1967 and reached the point where in some areas refinery supply capabilities were strained. To meet this growing demand, to improve product quality, and to increase the efficiency of its manufacturing operations, Imperial is engaged in a major refinery investment program. The bulk of the current capital expenditure is being made at Sarnia. Besides providing much greater flexibility in the production of both fuel products and chemicals, the program will increase capacity of Sarnia refinery by more than 30,000 barrels a day, maintaining it as the largest in Canada.

To finance the refinery program, and other current and planned projects, the company issued $50 million in debentures early in 1967 and another $50 million early in 1968. These debentures were well received, an indication of investor attitude toward the soundness of Imperial's growth prospects.

Although there was some firming of oil product prices during 1967, they remained at depressed levels in many areas. In the service station market some major companies continued, and others introduced, contests and promotions to attract the gasoline customer. Imperial believes that this intensive level of promotion, including games, is a temporary facet of the very competitive retail gasoline market. In the longer term, customer choice will be based on quality and service.

At year end the company was waiting for the report of the Royal Commission investigating the price structure of gasoline and diesel oil in Nova Scotia and was preparing information requested by a government committee which is investigating gasoline dealer and supplier relations in Alberta. In a brief to the Nova Scotia commission, Imperial pointed out that because of road taxes the Nova Scotia motorist pays one of the highest average prices for gasoline in Canada.

Sharp increases in provincial road taxes and the federal sales tax in recent years have tended to obscure the fact that today the amount Imperial, for example, receives for Esso gasoline sold through service stations is less in every area of Canada than it was 10 years ago. Through technological innovations and efficiency improvements, the oil industry has largely been able to absorb increasing costs over the postwar period. However, the industry is at the point where productivity improvements will not offset cost increases. Product prices must reflect this fact if the industry is to continue to make the substantial expenditures necessary to meet the steadily increasing demand for more and higher quality products.

The Canadian petrochemical industry has shown a growth rate much faster than that of other manufacturing industries. However, because of the high investment level of previous years, and because of increasing competition from foreign producers, it is expected that there will be a lessening in the rate of capital investment in petrochemical manufacturing facilities in Canada.

Imperial, which first entered the chemical field 10 years ago, now ranks as the largest supplier of basic and intermediate petrochemicals in Canada, with 18 plants across the country.

A major step was taken in 1967 with the start of construction of a fertilizer complex at Redwater, near Edmonton. The new complex, which will have a capacity of more than 500,000 tons per year, will cost in excess of $50 million and produce a full range of fertilizers for Prairie and other markets. It is scheduled for completion in 1969. Products from the plant will be sold by Esso agents across the Prairies, utilizing some 400 warehouses built for this purpose.

In 1967 the Canadian economy experienced a change of pace. After the longest, strongest growth period in the country's history, economic activity slowed markedly. While the Gross National Product increased by about seven per cent, price increases accounted for more than four per cent of this growth.

It is hoped that the GNP in 1968 will show a real growth rate similar to that of 1967. However, at this stage it is impossible to predict the prospects for 1968 with any degree of accuracy. Any expectations for the coming year must take into account the effect of fiscal and monetary policies designed to deal with domestic inflation, and the measures announced by the United States to handle its balance of payments problems. A third imponderable at the present time is the effect of the Kennedy Round tariff reductions.

For the Canadian petroleum industry, it is expected that refinery runs, and sales of finished petroleum products, should increase approximately four per cent in 1968. Production of crude oil is expected to increase but at a lower rate than in 1967; natural gas production is forecast to grow at approximately the same rate as in 1967.

As in the case of the economy as a whole, the outlook for the petroleum industry is subject to certain qualifications. In the producing area, for example, Canada's growing oil reserves place the industry in a good position to supply not only rising domestic demand but also large potential export markets. An important factor in this outlook was the dislocation of world oil supplies resulting from the Middle East situation in 1967. On balance, this experience should increase the attractiveness of Canada's secure oil reserves.

U.S. presidential approval of extension of the Interprovincial Pipe Line to Chicago has enhanced prospects for the ultimate expansion of markets for Canadian crude in the important Great Lakes area. However, while Imperial and the industry are continuing efforts to develop export markets, energy policy today is a matter of international diplomacy, and trade negotiations must be conducted in this framework.

Of particular concern, not only to the producing phase but to all aspects of the industry, are the recommendations of the Royal Commission on Taxation. Imperial's concern over these recommendations was expressed during the year at the company's annual meeting and at subsequent meetings and conferences. A detailed submission was made to the minister of finance in September in which the company set forth its thinking on the commission's recommendations as they affect the Canadian economy, the citizen and Imperial. The submission pointed out that the Carter recommendations form a theoretical and very impractical approach to tax reform which would retard economic growth, rather than foster it. So far as the oil and gas industry is concerned, implementation of the recommendations would have serious repercussions, including a sharp reduction in exploration.

It is encouraging to note that in his late-year budget speech the minister of finance stated that tax reforms will be made within the existing tax structure. In the broadest sense the present tax system is to be preferred to that proposed by the commission. This is not to say that the present system is perfect. In its original submissions to the Carter Commission and to the department of finance, Imperial made recommendations for improvements to the present system which in the company's opinion are consistent with economic growth and the social objectives of the nation.

Aside from the broad question of federal tax reform, the increasingly heavy burden of taxation borne by the petro-

leum industry, and by its products, is a matter of concern —particularly when competitive forms of energy are receiving both direct and indirect subsidies. The oil industry is one of the most heavily taxed of all industries. In 1967, for example, for every $1.00 Imperial made in earnings, it paid $1.22 in income and other taxes and in addition collected and paid to governments $2.05 in provincial road and sales taxes. In total, the company generated $313 million of tax revenue in 1967.

In the past 10 years, provincial road taxes have increased sharply, and at year end ranged from 12 to 20 cents per gallon of gasoline and from 14 to 27 cents per gallon of diesel fuel. In the same period the federal sales tax on gasoline has increased 40 per cent. Depending on where he lives, the Canadian motorist pays as much as 44 cents in federal sales and provincial road taxes when he buys one dollar's worth of gasoline. Despite this, the report of the Ontario Committee On Taxation proposed not only that the Ontario road tax be raised, but that the provincial sales tax also be applied—and applied on a price which includes the provincial road tax and the federal sales tax. What the committee has proposed is, in effect, a tax on an already very high tax.

Unless this trend is reversed, tax revenues from oil product sales will reach the point of diminishing returns. Even more important, every such tax increase raises the cost of transportation —and transportation has always been, and will continue to be, a fundamental problem in the development of the Canadian economy.

The problem of air and water pollution received increased public attention in Canada during the year. For many years Imperial has made major investments in equipment and research to combat pollution in all phases of its operations. Preceding the current construction at Sarnia, for example, intensive studies were made, including tests at the University of Toronto, to ensure efficient control of effluents and emissions from the new units. Since 1960, in its refinery operations alone the company has spent more than $18 million on processes that contribute to air and water conservation.

Particular attention has been paid in recent years to the effects of automotive emissions. A great deal of work has been done in this area by the research laboratories of major oil companies working with the automobile industry. Systems have been developed which are already in use in some areas. More sophisticated systems currently under development are expected to reduce exhaust emission still further and meet the increasingly stringent regulation goals anticipated. The internal combustion engine will, in the foreseeable future, continue to be the prime source of power for road vehicles.

Imperial's capital and exploration expenditures totalled $165 million in 1967, and, including major projects now under way, we expect these expenditures will be in the neighbourhood of $200 million in 1968. This spending touches every part of Canada. During 1967, for example, a west coast newspaper headlined the fact that a Victoria shipbuilding and engineering company had received a contract to make process equipment for Imperial's Montreal East refinery.

During the past year, Imperial purchased for its operations more than $140 million of material and equipment from Canadian manufacturers and suppliers. This was 93 per cent of all such purchases made by the company. In addition, to supply its own refineries and the export markets it has developed, the company bought some $200 million worth of crude oil from other Canadian oil producers.

In some of its exploration and production operations, and in all its major construction programs, Imperial contracts for the services of many companies, large and small. During the peak of construction at the Sarnia refinery last summer, for example, there were 24 contractors and sub-contractors working on the new units. In total, they employed some 1,000 persons.

In discussing Imperial's performance in terms of financial and physical operations, particularly in this computerized and electronic era, we must remind ourselves that the company's physical assets are merely tools in the hands of people. Imperial's success continues to depend on the high standard of performance which its employees bring to their responsibilities.

In addition to the contribution they make to the economic well-being of Canada through their work with one of the country's largest corporations, Imperial employees also make significant contributions to the communities in which they live. Many give freely of their own time in assisting the work of education, charitable, cultural and service organizations.

To the company's employees, to its dealers, agents and distributors, and to the shareholders for their continued support, the directors join with me in extending their thanks.

W. O. Twaits, president

For many years Imperial has conducted one of the largest oil and gas exploration programs in Canada. During 1967 this program ranged from the Atlantic Ocean in the Grand Banks area off Newfoundland to the Arctic coastal plains. There was continued emphasis on the Rainbow-Zama area of Alberta, where 33 of the 43 exploratory and development wells drilled by the company were successful.

The company's search for minerals was expanded, with crews active in six of the 10 provinces and in the Yukon.
Exploration expenditures were $36.3 million in 1967. Another $23.8 million was spent for the acquisition of proven acreage, for oil and gas field development and for secondary recovery projects.

	1967	1966
Gross land holdings (reservations, permits, options, leases), millions of acres	45	50
Net exploratory wells drilled	64	81
Net development wells drilled	71	87
Net wells capable of production		
Crude oil	2,947	2,987
Natural gas	225	219

As noted in the table above, Imperial's gross land holdings decreased 10 per cent to 45 million acres. This was due largely to reduced holdings in the Northwest Territories.

The exploration program continued to focus on the Rainbow-Zama area of Alberta where three-quarters of the exploration and development wells drilled by the company were successful in 1967.

Exploration and Production/*1967 pictorial review*

The company's net production of crude oil and natural gas liquids rose 11 per cent to 141,000 barrels per day. Net volume of natural gas produced rose 30 per cent to 283 million cubic feet per day.

Laboratory and field pilot experiments seeking the most effective way of producing the Cold Lake heavy oil deposits were continued.

Through participation in Syncrude Canada Ltd., Imperial is continuing research into production from the Athabasca tar sands. Laboratory and on-site pilot experiments have developed feasible means of mining the deposits at or near the surface and of separating and upgrading the hydrocarbons on the site. Syncrude has applied to the Alberta Oil and Gas Conservation Board for permission to institute a recovery project.

2. Imperial is installing central batteries in major Alberta oil fields to replace individual gathering and separating units. Pioneered by the company in Canada, the new fieldgate systems permit significant savings in oil field production costs. Shown here are separators in the Leduc battery.

3. Supplies for Imperial Oil drilling operations in the Rainbow Lake area of northern Alberta are loaded aboard the company's Caribou aircraft.

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1. This geologist is using a scintillometer in Imperial's search for uranium in northern Saskatchewan.

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4. The company's geophysical activities were at a high level in 1967. Here a crew drills a shot hole for a seismic test.

4

Exploration and Production/*1967 pictorial review*

1. Imperial is continuing field and laboratory research into production of heavy oil deposits in western Canada.

2. The use of computers in oil and gas exploration is expanding. Here a member of Imperial's production research and technical services laboratory in Calgary operates apparatus used in conjunction with the company's new digital processing centre where seismic data is interpreted.

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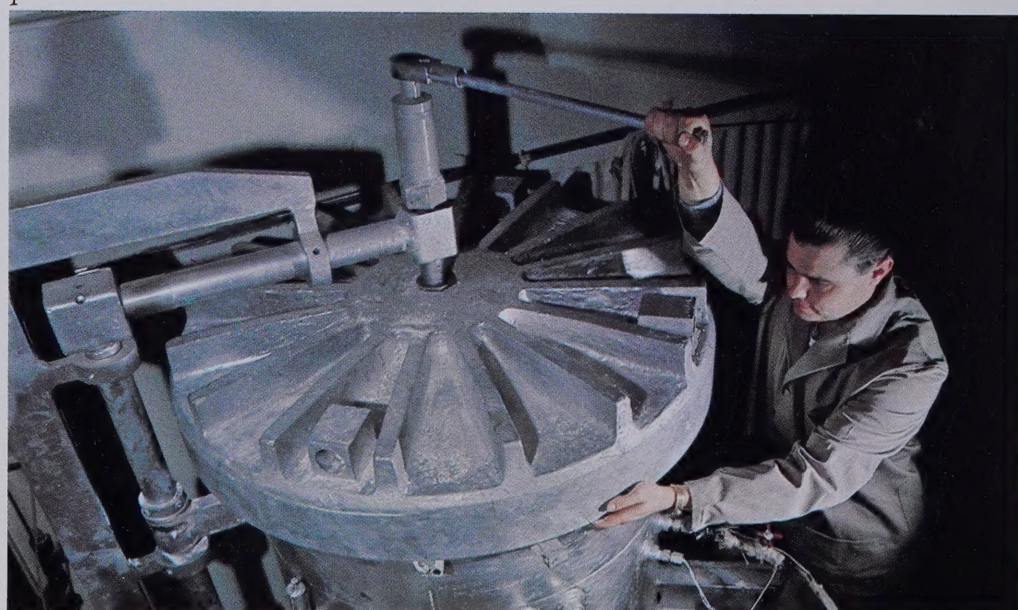

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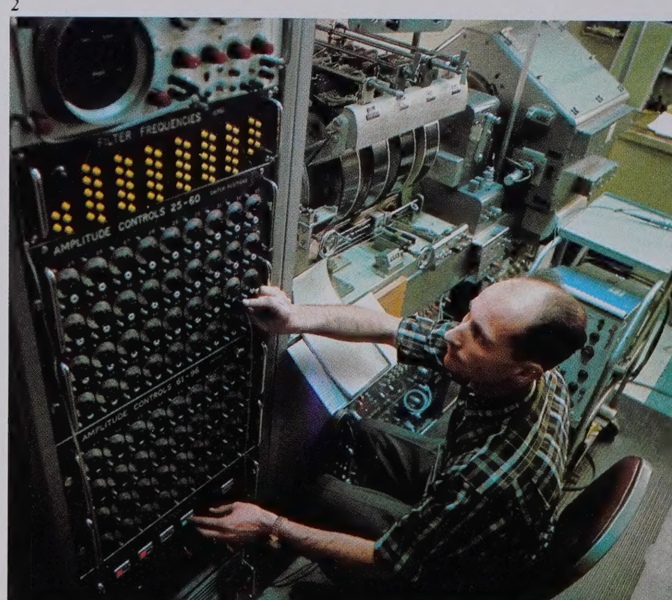

The largest ship ever to enter Halifax harbor, the 110,187 deadweight ton tanker Imperial Ottawa went into service in 1967 transporting oil to the company's eastern refineries.

Construction started on a products pipe line from the company's Montreal East refinery across the St. Lawrence River to terminals at Boucherville and Drummondville. The line is expected to be in operation by the early fall of 1968.

Pipe lines in which Imperial has an ownership interest expanded their operations. Interprovincial Pipe Line installed 413 miles of 34-inch line in looping operations between Edmonton and Superior, Wis. Rainbow Pipe Line extended its line southward from Nipisi to Edmonton, and northeast from Rainbow Lake to Zama Lake. The 477-mile line now is able to move oil from this discovery area directly to Edmonton. Trans Mountain Oil Pipe Line expanded average capacity by 20,000 barrels per day.

Because of Alberta's crude oil prorationing regulations, the company continued to purchase large supplies of crude for its own refineries and for export markets, most of which it could have produced from its own wells.

The 110,187 deadweight ton tanker Imperial Ottawa went into service during the year, transporting oil to Imperial's eastern refineries. With a capacity of 850,000 barrels, the new ship's deadweight tonnage is almost seven times greater than that of the liner Queen Elizabeth.

Transportation and Supply/*1967 pictorial review*

1. Use of jumbo tank cars increased again in 1967. More than twice the size of conventional tank cars, they provide more economic oil movement.

2. Construction began on a products pipe line from Imperial's Montreal East refinery to supply points in Quebec's eastern townships.

3. Recording instruments are installed on an experimental pipe line which Imperial laid in permafrost to study the problems of moving oil in Canada's north. The instruments measure factors such as strains due to temperature changes.

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The company continued the major refinery expansion and modernization program which was started in 1965. The largest part of this program is being carried out at Sarnia and is designed to meet the growing demand for fuels and chemicals, to improve product quality, and to increase productivity in the highly competitive fuels and chemical business.

Work started at the Montreal East refinery on a $1.5 million modernization and expansion of asphalt shipping and handling facilities.

A new $1.3 million dock was built at Ioco refinery, and work was begun there on two plants to treat increased volumes of turbo fuels and heating oils.

A 500,000 barrel crude oil storage tank, one of the world's largest, and associated piping and dock facilities, were constructed at the Dartmouth refinery to accommodate the new tanker Imperial Ottawa.

At Sarnia refinery some new units went on stream, and construction of others continued, in the company's $93 million modernization and expansion program.

Manufacturing/1967 *pictorial review*

1. Installation of pollution control equipment represents nearly 10 per cent of all expenditures for new manufacturing facilities. This new cooling unit at Sarnia refinery permits recycling of water used in processing operations and minimizes return of effluent water to the river. The steam is caused by vapor from the heated water coming into contact with the cooler air.

2. A new dock was built at the Ioco refinery. It enables the company's ships to transport petroleum products more efficiently to supply points on the British Columbia coast.

3. Featuring an "on line" computer, the first in Canada, this control room is the nerve center for the new complex at Sarnia refinery.

4. To accommodate a general expansion of Imperial's petroleum chemical research program, already Canada's largest, work began during the year on an extension to the research building in Sarnia.

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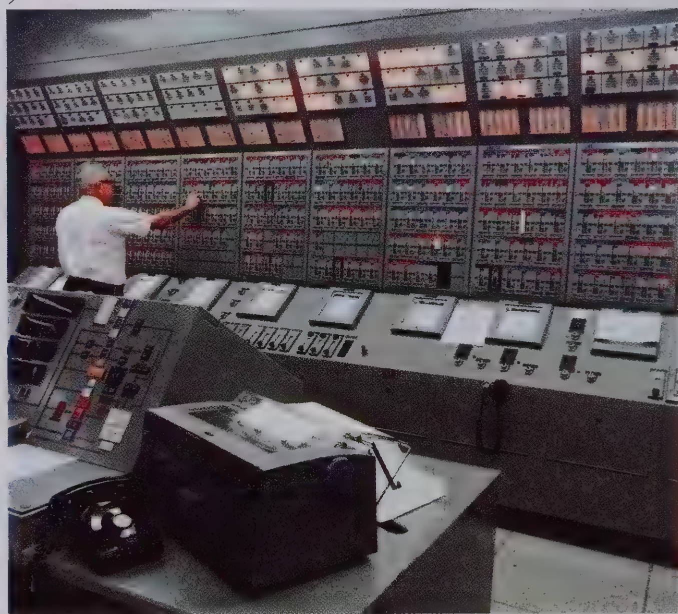

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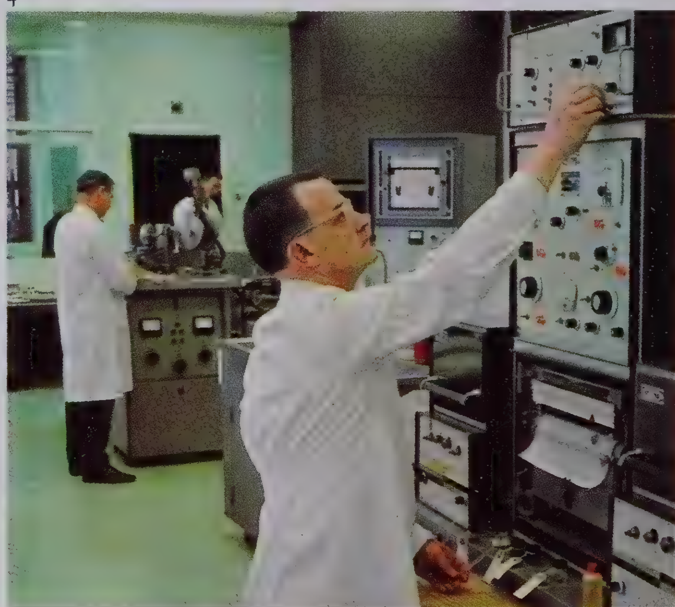

Three new chemical plants were brought into production and two others were expanded during 1967.

At Halifax, facilities were completed to produce heptene, a petrochemical used to manufacture compounds that improve the processability of some plastics. A methanol plant came on stream in Montreal. This chemical is used as a general solvent and as a raw material for the manufacture of a number of other chemicals. At Sarnia, equipment to compound polyvinyl chloride plastic resins was put into operation, and facilities to manufacture lubricating oil additives were expanded. The company also announced further expansion of ethylene manufacturing facilities as part of the modernization and expansion program under way at the Sarnia refinery. This will increase ethylene capacity to more than 400 million pounds annually and maintain Imperial's position as a major supplier of this basic petrochemical.

Construction started on a fertilizer manufacturing complex near Redwater, Alta. Scheduled for completion in 1969, the complex will have a capacity in excess of 500,000 tons annually of nitrogenous and phosphatic fertilizers and will be the largest in western Canada.

Sales of Building Products of Canada Limited increased again. Introduction of new floor tile and plastic pipe products generated above-average sales gains. Late in the year, the company expanded its plastic pipe extrusion facilities in Edmonton and announced a major expansion of the Hamilton plant to manufacture vinyl sheet flooring.

Research continued on development of polyvinyl chloride compounds and resins for new uses. Here a member of the applications research laboratory examines polyvinyl chloride film.

Chemical and Building Products/1967 *pictorial review*

1. Work was started on expansion of ethylene manufacturing facilities at Sarnia.

2. Building Products of Canada Limited started manufacture of polyvinyl chloride pipe at its Edmonton plant. The pipe is being used extensively in natural gas distribution.

3. Construction began on a fertilizer manufacturing complex near Redwater, Alta. It is scheduled for completion in 1969.

4. This award-winning floor tile was among new products introduced by Building Products of Canada Limited.

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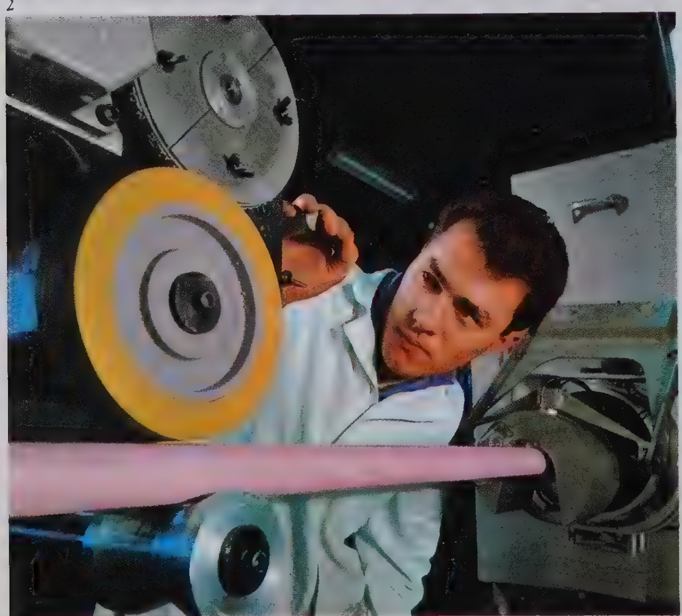

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The company's sales of petroleum products increased four per cent in 1967.

As the largest supplier of petroleum products in Canada, Imperial is always watching closely for changes in customer needs and buying habits. In the service station area, for example, the trend in recent years has been to fewer but larger stations. In 1967 the company invested a record $39.2 million in marketing facilities, including construction of 34 Esso stations to meet demand in new or expanding markets. At the same time, another 58 service stations were closed in the face of changed market conditions. Typical of the bigger stations now opening are the automotive service centres which Imperial pioneered in Canada. They feature diagnostic car clinics for complete mechanical check-ups and extensive repair facilities. At year end 26 such centres were in operation across the country, and another 10 were under construction.

About half of Imperial's petroleum products are sold in the commercial market, and in 1967 sales in this important area increased again. Two important contracts currently being supplied are Newfoundland's Churchill Falls and British Columbia's Mica Dam hydro-electric power projects. The company's sales of jet fuels to airlines increased by one-third in 1967.

Sales of heating fuels also increased substantially over the previous year. Imperial has now stepped beyond the provision of home heat and is offering water heaters and a broadened line of equipment to clean, humidify and de-humidify air to provide the householder with a means to control his own environment.

Thousands of Canadian motorists and visitors to the country took advantage of Imperial's country-wide travel information network which was introduced in 1967. The network included Esso kiosks on and near the site of Expo 67 (shown here), as well as 1,400 travel information desks at Esso service stations.

Marketing/*1967 pictorial review*

Engro sales continued to increase rapidly in the western Canada fertilizer market, which expanded by 30 per cent again in 1967. The addition of 250 Engro warehouses during the year completed the company's program to build a network of some 400 across the prairies to serve this growing demand. The warehouses handle fertilizer in bulk or bag form and feature automated loading facilities.

Thousands of Canadian motorists and visitors to the country took advantage of Imperial's country-wide travel information network which was introduced in 1967. The network included Esso kiosks on and near the site of Expo 67 as well as 1,400 travel information desks at Esso service stations.

Holders of Imperial credit cards will benefit from the expansion of credit card privileges into two new areas. One is for the use of the company's credit cards at Avis Rent-A-Car facilities in Canada. The other is for Ramada Inn Roadside Hotels in the United States.

Again in 1967, through participation in the "Sell Esso" program, employees who were not directly engaged in sales contributed substantially to the sales effort. More than half of all employees, from all departments and all levels of the company, participated in the program which was introduced in 1963 to encourage employees and annuitants to seek new business for the company.

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1. The addition of 250 Engro fertilizer warehouses during the year completed the company's program to build a network of some 400 across the prairies to serve farmers' rapidly growing demand for fertilizer.

2. Imperial has broadened its home heating and appliance line with water heaters and with equipment to clean, humidify and de-humidify air. The new equipment is part of the company's effort to provide the householder with a means to control his own environment.

3. Imperial's automotive service centres, which now extend from coast to coast, feature diagnostic car clinics for complete mechanical check-ups, and extensive repair facilities.

4. Montreal Esso dealers, dressed in their Expo jackets, attend a dealer advisory board meeting. Through the boards, Imperial dealers and company representatives meet regularly to discuss matters of mutual interest.

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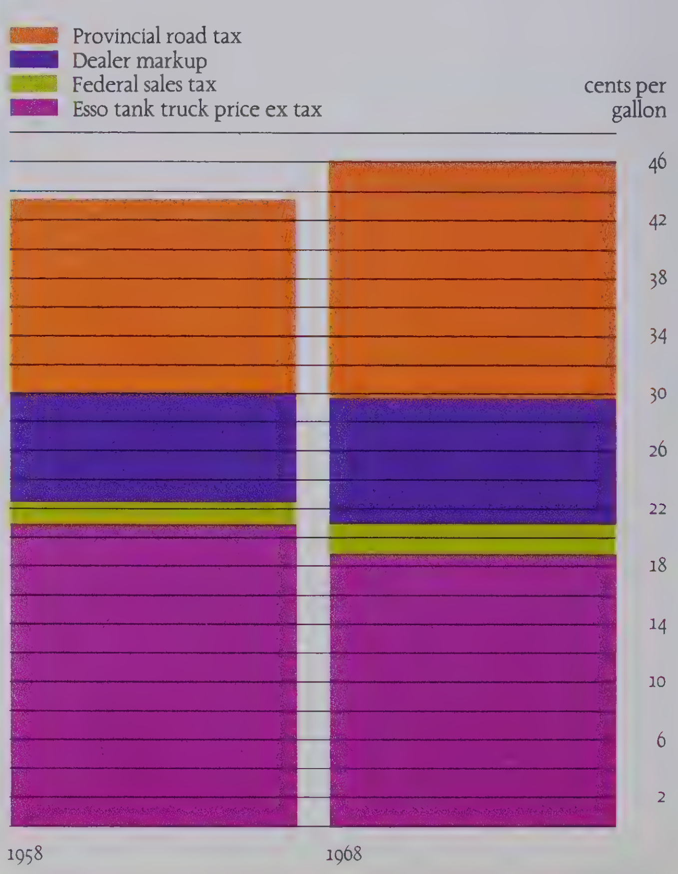
5. The trend to fewer but larger service stations continued in 1967 with construction of automotive service centres like this one at Vancouver.

Marketing/1967 *pictorial review*

Truck and trailer units with a total capacity of 11,000 gallons—the largest in Canada—were introduced in Ontario during the year. The larger vehicles reduce the number of trucks on the highways and save on transportation costs.

This chart shows how the components of the retail price of gasoline have changed from 1958 to 1968. While provincial and federal taxes and the dealer markup have increased, what Imperial gets for Esso has gone down. The cents per gallon shown for provincial road tax is an average. Actual road taxes ranged from 10 to 17 cents a gallon in 1958, and from 12 to 20 cents a gallon at January 1, 1968. The tank truck price is the price at which Imperial delivers gasoline into dealers' tanks. The amount shown here excludes the federal sales tax and is the average of prevailing prices at 10 principal cities across Canada. The dealer markup is also the average of that prevailing at these cities.



Components, Esso gasoline prices 1958 and 1968/*as of January 1*

Earnings

		1967	1966
Earnings	$	95,515,000	92,408,000
Per share	$	2.98	2.90
Change from previous year	%	3.3	7.2

Capital employed

Capital employed exceeded $1 billion for the first time in 1967, an increase of $98,687,000 over 1966. The major factors contributing to the increase were the proceeds from the sale of $50 million, 6¾ per cent debentures issued January 2, 1967 and the increase in retained earnings of $28,465,000. The relationship between the company's earnings and capital employed is illustrated in Chart 1.

Expressed as a percentage of capital employed, earnings reached 11.9 per cent in 1955 and dropped to 6.7 per cent in 1958. Since 1958, the rate of return has increased to the present 9.8 per cent.

Dividends paid to shareholders

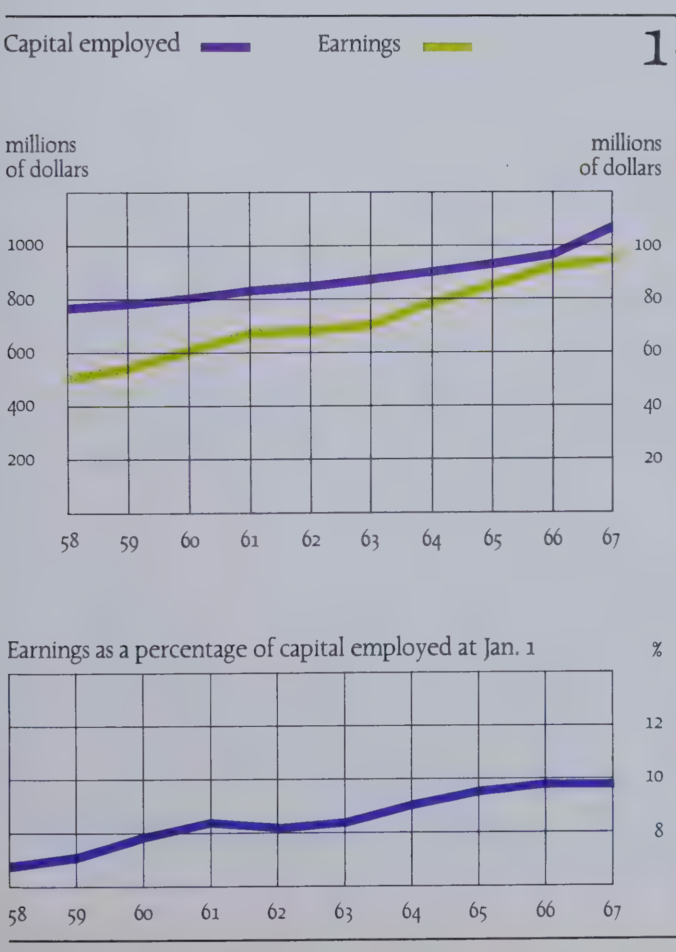
		1967	1966
Total dividends paid	$	67,050,000	63,500,000
As a percentage of earnings	%	70	69
Total of quarterly dividends per share	$	2.00	1.85
Extra dividend	$	.10	.15
Total dividends per share	$	2.10	2.00

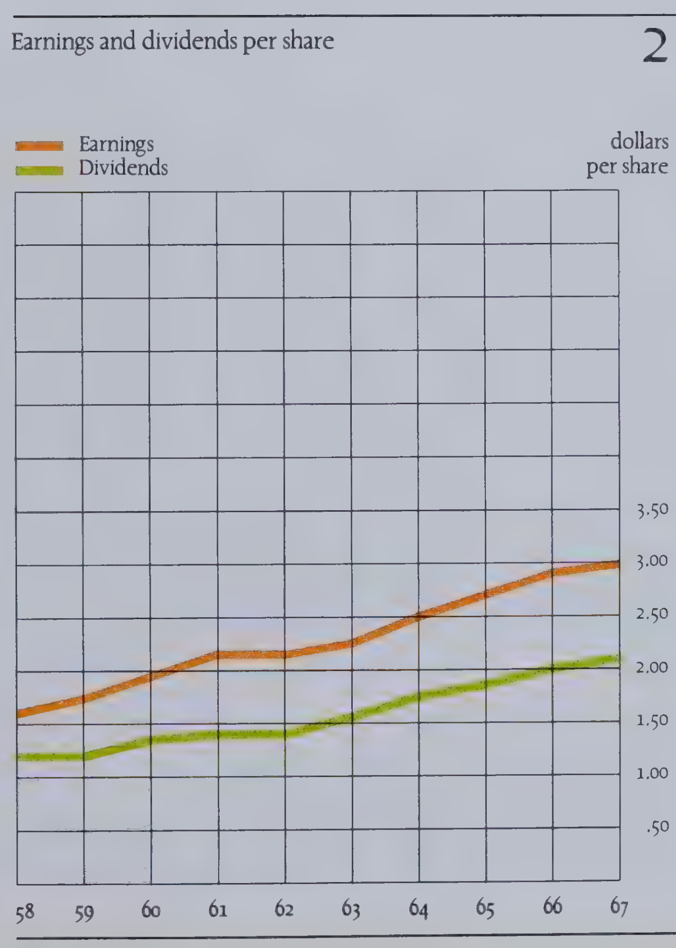
The company has paid dividends each year since 1891. Chart 2 shows a 10-year history of earnings and dividends per share.

Shareholders' investment

		1967	1966
At beginning of year	$	830,147,000	798,285,000
Increase during the year	$	39,891,000	31,862,000
At end of year	$	870,038,000	830,147,000
Shares outstanding at end of year		32,050,399	31,791,658
Book value per share	$	27.15	26.11

Of the 39,578 shareholders at December 31, 1967, 34,701 were residents of Canada.





Financial Review

Sales and other operating revenues

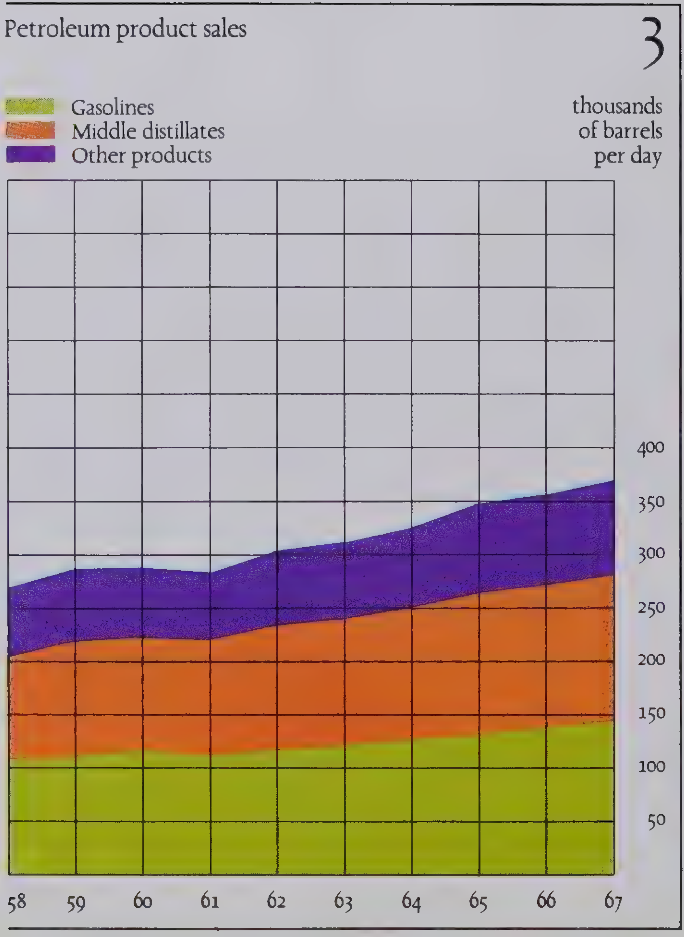
		1967	1966
		thousands of dollars	
Petroleum products, excluding road taxes	$	816,784	784,409
Crude oil and natural gas	$	321,224	257,250
Chemical products	$	65,312	55,635
Other products and merchandise	$	88,389	79,706
Other operating revenues	$	7,800	6,595
	$	1,299,509	1,183,595
Change from previous year	$	115,914	38,512
Percentage change	%	9.8	3.3

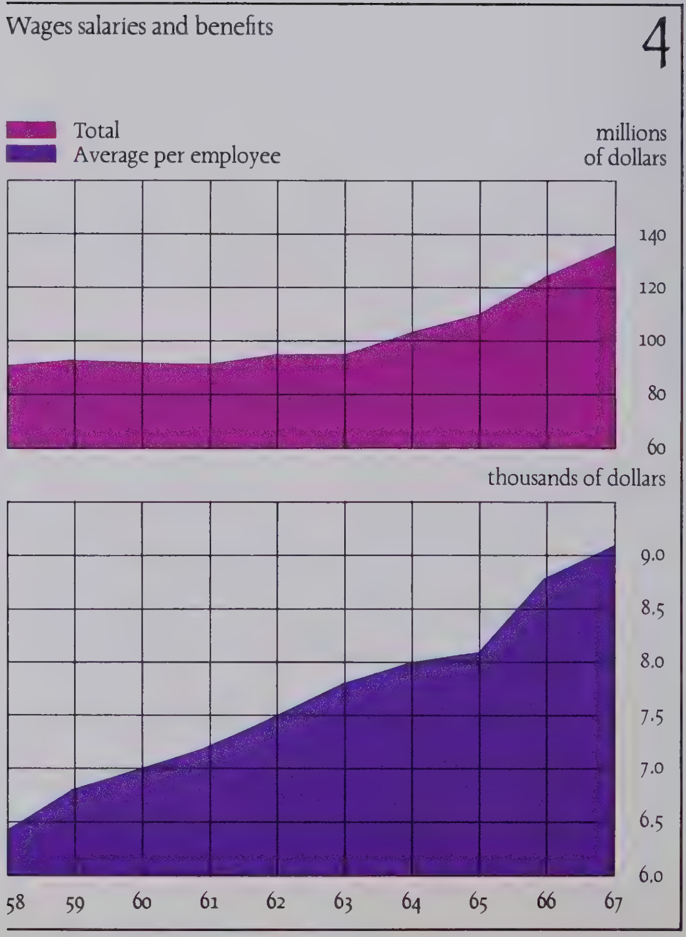
Chart 3 provides a 10-year history of petroleum products sales volumes.

Expenses

Operating, exploration and administrative expenses reached a record $327,431,000 in 1967. This reflected the higher level of operations as well as increased costs of materials and wages. For the fourth consecutive year, costs of wages and salaries increased significantly. Chart 4 provides a 10-year history of total wages, salaries and benefits, and the average per employee. The following table provides data for 1967 and 1966.

		1967	1966
		thousands of dollars	
Salaries, wages and benefits	$	135,599	124,781
Change from previous year	$	10,818	13,983
Percentage change	%	8.7	12.6





Expenses/Taxes and payments to governments

In 1967 taxes charged against earnings, and taxes collected on behalf of governments, exceeded $300,000,000. Taxes generated by the company amounted to more than three times its earnings. A 10-year history of these taxes and their relationship to earnings is shown in Chart 5.

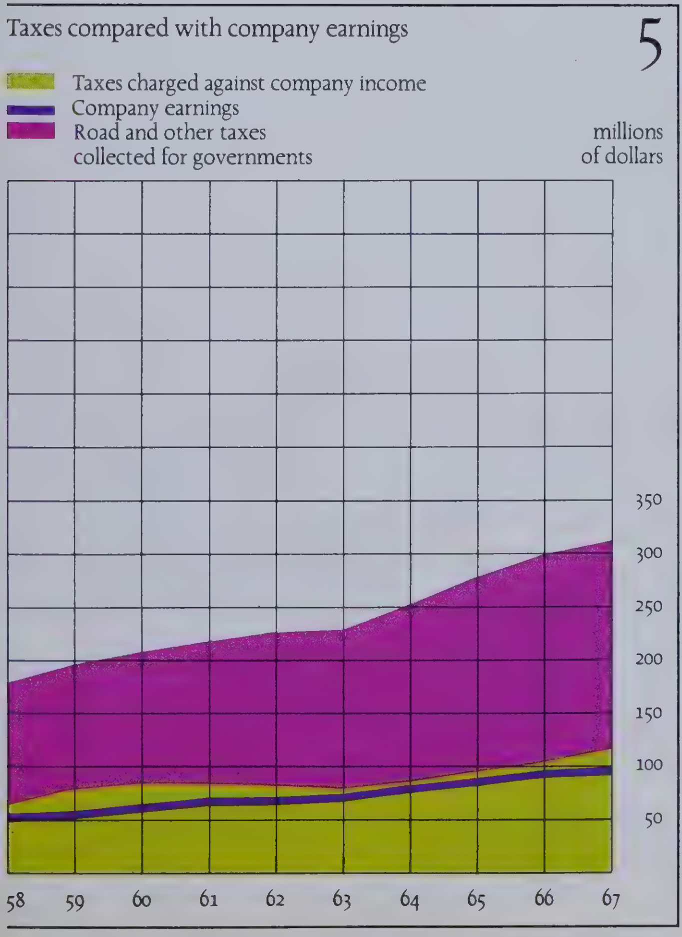
Taxes		1967	1966
		thousands of dollars	
Income taxes	$	53,907	44,414
Federal sales taxes	$	46,847	42,933
Property and other taxes	$	16,235	15,488
Total charged against earnings	$	116,989	102,835
Road and other taxes	$	195,513	196,705
	$	312,502	299,540

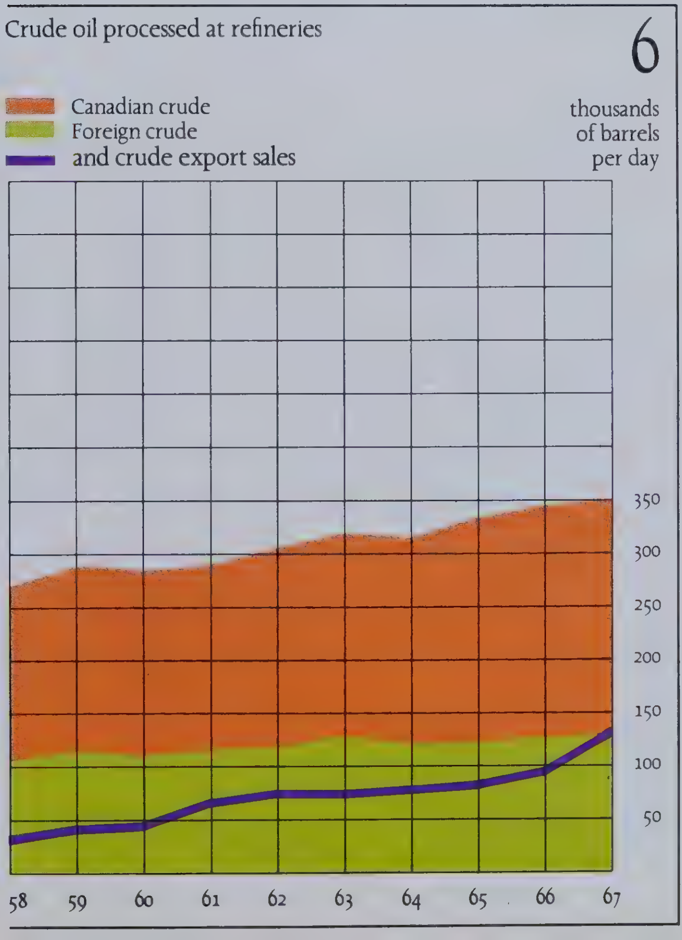
In addition to the above, $27,200,000 was paid to governments in 1967 for oil and gas royalties and to acquire and retain acreage exploration rights. This compares with $28,500,000 in 1966.

Expenses/Crude oil processed

Crude oil purchases constitute the major expense of the company's operations. In 1967, crude oil processed at refineries reached a record 350,000 barrels per day. Chart 6 provides a 10-year history of crude oil processed and crude export sales. This chart also shows the relationship between foreign crude processed and Canadian crude exported. In 1967 for the first time in the company's history, Canadian crude exports, 131,000 barrels per day, exceeded foreign crude imports, 130,000 barrels per day. Canadian crude exports, all from Western Canada, are for U.S. markets while all foreign crude imports are for the company's Dartmouth and Montreal East refineries.

Crude oil processed		1967	1966
		thousands of barrels per day	
Canadian	bbls.	220.0	219.0
Foreign	bbls.	130.0	127.0
Total	bbls.	350.0	346.0
Change from previous year	bbls.	4.0	14.0
Percentage change	%	1.2	4.2





Financial Review

Expenses/Canadian crude oil requirements

Chart 7 provides a 10-year history of the company's requirements for Canadian crude oil. Because of Alberta's prorationing regulations, it was necessary to purchase large supplies of crude oil from other Canadian producers. Of the 351,000 barrels per day required for the company's refineries and for export, company-owned production supplied 141,000 and 210,000 were purchased.

Crude production		1967	1966
		thousands of barrels per day	
Net production of crude	bbls.	141.0	127.0
Change from previous year	bbls.	14.0	12.0
Percentage change	%	11.0	10.4

Employees' annuities

The company and its subsidiaries have a number of pension plans covering substantially all employees. A recent actuarial valuation indicates that adequate provision has been made for pension obligations under these plans. At year end 2,669 retired employees were drawing pensions under the plans. A wide range of other employee benefits is also provided.

Source and use of funds

A statement of source and use of funds for 1967 and 1966 appears with the financial statements on page 24. Chart 8 provides a 10-year history of funds from operations compared with dividends and capital expenditures.

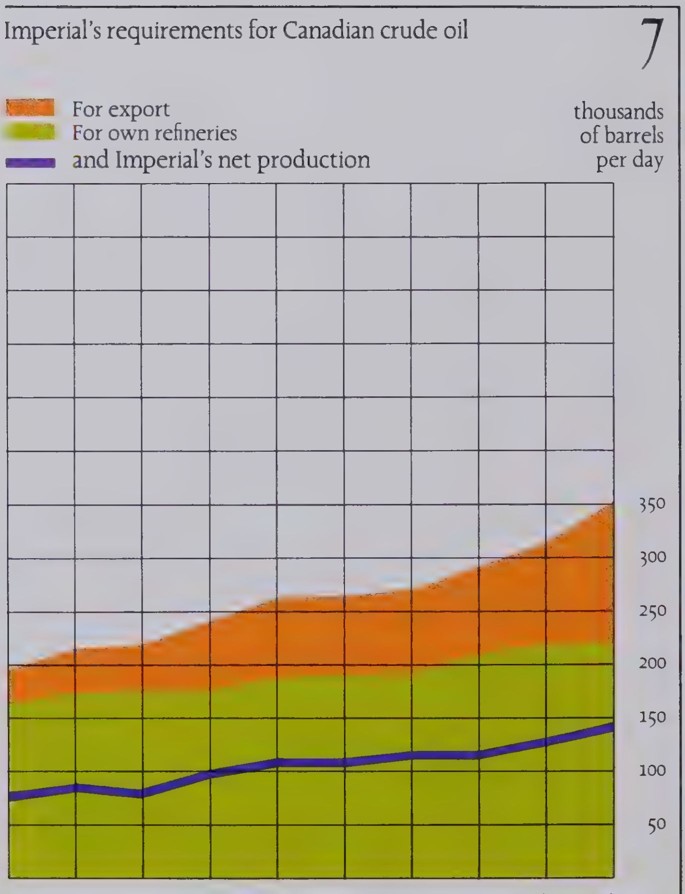
Working capital

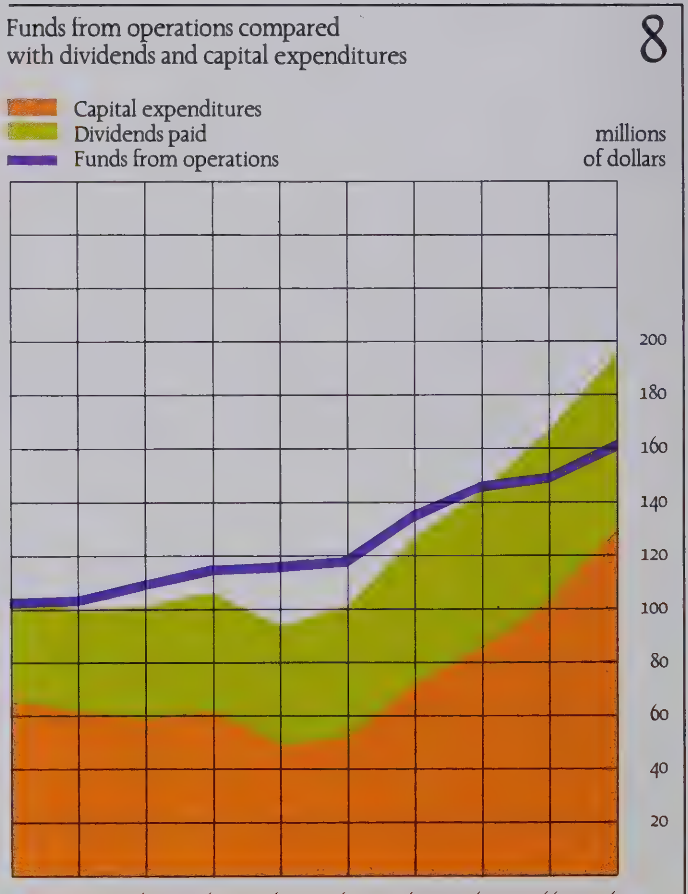
The company has maintained a strong working capital position throughout the last four years in the face of heavy capital expenditures. The following table shows the relationship of current assets to current liabilities for 1967 and 1966. Details are provided in the consolidated statement of financial position on page 25.

		1967	1966
		thousands of dollars	
Current assets	$	448,935	393,410
Less: current liabilities	$	174,860	143,346
Working capital	$	274,075	250,064
ratio, current assets to current liabilities		2.6 to 1	2.7 to 1

Accounts receivable increased $28,468,000 over 1966 to $231,331,000. This increase reflected increased sales volumes and expanded use of credit facilities. Total inventories increased $8,196,000. The following table shows changes in crude oil, products and merchandise inventories for the past two years.

		1967	1966
		thousands of dollars	
Investment in inventories at year end	$	153,325	145,835
Change from previous year	$	7,490	3,326
Percentage change	%	5.1	2.3





Long-term accounts receivable, investments and other assets

A summary of these assets appears in note 8 on page 27 and Chart 9 shows a 10-year history. Long-term accounts receivable consist of loans to dealers and long-term financing arrangements of furnace and burner sales undertaken in the normal course of business.

The major investment interests in other companies not consolidated in this report are shown below. The principal activity of these companies is the operation of crude oil trunk lines, with the exception of Tecumseh which is a natural gas storage company.

Major investment interests	*per cent interest*
Interprovincial Pipe Line Company	33.0
Trans Mountain Oil Pipe Line Company	8.6
Montreal Pipe Line Company Limited	32.0
Rainbow Pipe Line Company, Ltd.	33.3
Tecumseh Gas Storage Limited	50.0

Property, plant and equipment

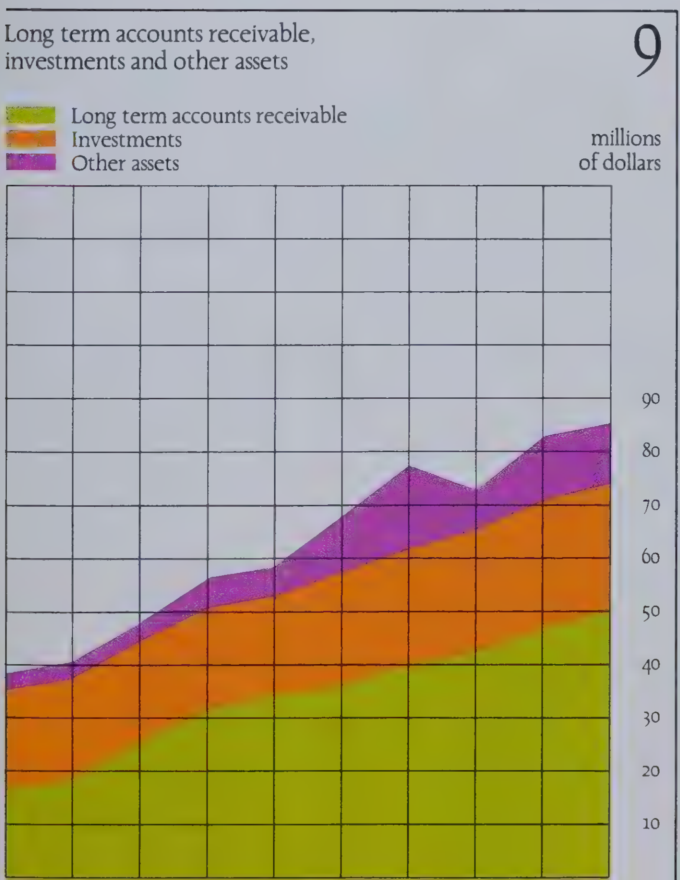
The company's gross investment in property, plant and equipment was $1,340,295,000 at December 31, 1967. Details of these assets by major activity are provided in note 5 on page 26. The following table shows total capital expenditures for the past two years while Chart 10 provides a 10-year history.

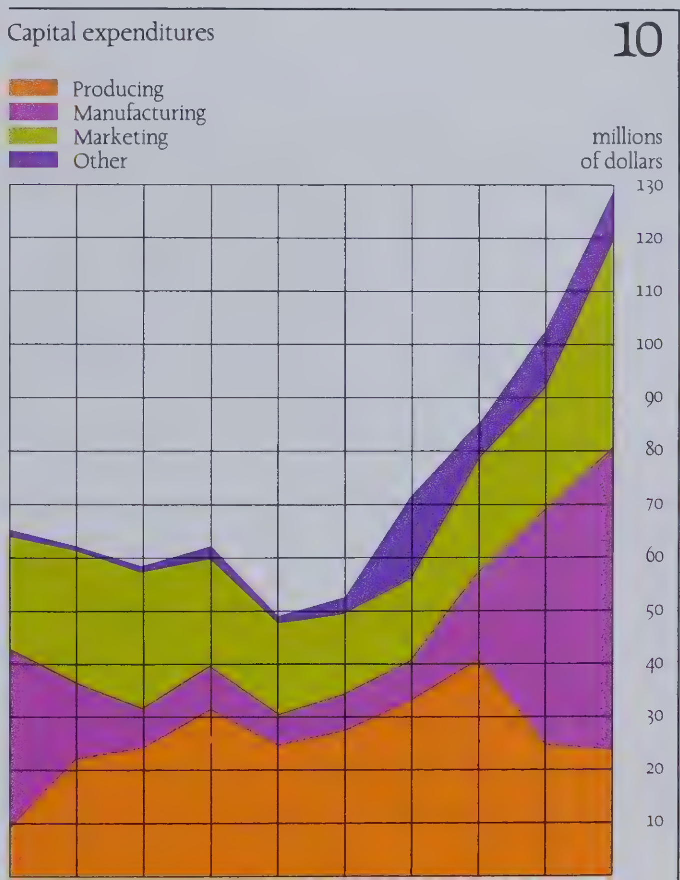
		1967	1966
		thousands of dollars	
Producing	$	23,830	24,650
Manufacturing–petroleum products	$	37,422	24,650
–chemical products	$	19,067	20,055
Marketing	$	39,207	22,963
Transportation	$	6,346	5,820
Other	$	2,796	4,623
	$	128,668	102,761

The heavy capital spending experienced again in 1967 raised the gross investment in fixed assets per employee to $89,754. The following table illustrates the capital intensive nature of the business today and compares it to 1957.

Fixed assets per employee		1967	1957
Gross investment in fixed assets at year end	$	1,340,295,000	762,312,000
Number of employees at year end		14,933	14,657
Gross investment per employee	$	89,754	52,010

In addition to these capital expenditures (see Chart 10) the company spent $36,310,000 for exploration in 1967 compared with $37,040,000 in 1966. It is the company's policy to treat the costs of acquisition and retention of exploration acreage, geological and geophysical surveys, unsuccessful drilling and other exploration expenses, as charges against current earnings.





Imperial Oil Limited and Subsidiary Companies

Consolidated statement of earnings for the years 1967 and 1966

	1967	1966
Revenues		thousands of dollars
Sales and other operating revenues	$ 1,299,509	1,183,595
Investment and other income	$ 19,701	17,702
	$ 1,319,210	1,201,297
Expenses		
Crude oil, products and merchandise purchases	$ 721,947	645,427
Operating, exploration and administrative expenses	$ 327,431	309,396
Depreciation and amortization (note 5, page 26)	$ 51,970	49,245
Income taxes (note 6, page 26)	$ 53,907	44,414
Taxes, other than income taxes	$ 63,082	58,421
Interest and discount on long-term debt	$ 5,358	1,986
	$ 1,223,695	1,108,889
Earnings for the year	$ 95,515	92,408
per share	$ 2.98	2.90

Consolidated statement of source and use of funds for the years 1967 and 1966

	1967	1966
Source of funds		thousands of dollars
Funds from operations (earnings plus depreciation, amortization and deferred income taxes)	$ 160,442	148,727
Debentures issued	$ 50,000	—
Capital stock issued	$ 11,426	2,954
Sales of property, plant and equipment	$ 4,610	5,353
	$ 226,478	157,034
Use of funds		
Capital expenditures for property, plant and equipment	$ 128,668	102,761
Dividends paid to shareholders	$ 67,050	63,500
Increase in long-term receivables, investments and other assets	$ 2,588	9,912
Repayment of long-term debt	$ 4,150	1,900
Other	$ 11	142
	$ 202,467	178,215
Increase (decrease) in working capital	$ 24,011	(21,181)

The Notes to the Financial Statements
are a part of these statements.

Consolidated statement of financial position as at December 31, 1967 and 1966

	1967	1966
Current assets		thousands of dollars
Cash, including time deposits	$ 46,808	29,286
Short-term commercial notes	$ 3,095	1,184
Government securities, at the lower of cost and market	$ 1,458	1,690
Accounts receivable (note 7, page 27)	$ 231,331	202,863
Prepaid taxes, insurance and rentals	$ 2,664	3,004
Inventories, on basis of cost which was less than market:		
crude oil, products and merchandise	$ 153,325	145,835
materials and supplies	$ 10,254	9,548
	$ 448,935	393,410
deduct:		
Current liabilities		
Accounts payable and accrued liabilities (note 7, page 27)	$ 148,370	120,149
Income and other taxes payable	$ 26,490	23,197
	$ 174,860	143,346
Working capital	$ 274,075	250,064
add:		
Property, plant and equipment and other assets		
Property, plant and equipment, at cost less accumulated depreciation and amortization (note 5, page 26)	$ 713,034	640,946
Long-term accounts receivable, investments and other assets (note 8, page 27)	$ 85,648	83,060
Capital employed	$ 1,072,757	974,070
deduct:		
Long-term liabilities and deferred credits		
Long-term debt (note 9, page 27)	$ 102,350	56,500
Employee annuity and contingent obligations	$ 12,724	12,735
Deferred income taxes (note 6, page 26)	$ 87,645	74,688
	$ 202,719	143,923
Shareholders' investment	$ 870,038	830,147
This investment is evidenced by		
Capital stock (note 4, page 26)	$ 255,081	243,655
Authorized - 40,000,000 no par value shares		
Issued 1967 - 32,050,399 shares; 1966 - 31,791,658 shares		
Earnings retained and used in the business		
At beginning of year	$ 586,492	490,361
Earnings for the year	$ 95,515	92,408
Transfer of capital surplus	$ —	67,223
Dividends paid	$ (67,050)	(63,500)
At end of year	$ 614,957	586,492
	$ 870,038	830,147

The Notes to the Financial Statements are a part of this statement.

Approved on behalf of the Board

Notes to the Financial Statements

1. General

The consolidated financial statements include the results of operations for 1967 and the financial position as at December 31, 1967 of Imperial Oil Limited and all its subsidiaries.

2. Contingencies and Commitments

The company is a party to agreements under which it has undertaken to guarantee or otherwise protect certain principal and interest obligations of various crude oil pipe line companies. The long-term indebtedness of those companies at December 31, 1967 for which the company is contingently obligated amounts to $80,557,000 of which $30,404,000 is jointly and severally guaranteed with other companies. The pipe line companies are meeting these obligations as they fall due and present indications are that they will continue to do so. The company has agreed to guarantee jointly and severally with other companies the principal of and interest on further long-term borrowings of one of the pipe line companies in the aggregate principal amount of $5,404,000.

The company has guaranteed or agreed to guarantee obligations of others, chiefly principal of and interest on borrowings, in the aggregate principal amount of $14,452,000.

Tanker charter hire and other rentals payable by the companies under long-term agreements approximate $4,300,000 annually.

3. Remuneration of directors

The total remuneration paid in 1967 to directors of the company was $872,000. All directors are full time employees of the company.

4. Capital stock

Under the company's Incentive Stock Option Plans of 1959 and 1965, employees may be granted options to purchase unissued common shares of the company at not less than 95 per cent of the market price on the date of granting the options. As of December 31, 1967 there were outstanding options for 220,874 shares exercisable at prices of $40.00, $43.11, $51.06 and $63.17. Options for 58,124 shares may be exercised currently, for 81,725 shares after July 4, 1968 and for 81,025 shares after July 28, 1969. Included in the above are 59,150 shares under option to directors or officers. In 1967 the company issued 258,741 shares for $11,426,000 all under the terms of the Plans.

5. Property, plant and equipment at December 31

		1967	1966
Gross investment – at cost		*thousands of dollars*	
Producing	$	427,798	406,704
Manufacturing	$	384,199	349,034
Chemical products	$	94,974	75,474
Marketing	$	328,197	300,912
Transportation	$	55,552	52,201
Other	$	49,575	47,212
	$	1,340,295	1,231,537
Accumulated depreciation and amortization			
Producing	$	177,472	166,070
Manufacturing	$	246,408	234,396
Chemical products	$	33,338	28,201
Marketing	$	134,873	128,595
Transportation	$	22,100	22,328
Other	$	13,070	11,001
	$	627,261	590,591
Net investment	$	713,034	640,946

Depreciation of plant and equipment is based on the estimated service lives of the assets, calculated on the straight line method. Amortization of producing well costs and of capitalized producing lease costs is determined on the unit of production method.

The charges against earnings in 1967 for amortization of producing well costs and capitalized producing lease costs amounted to $5,998,000 and the accumulated provision as at December 31, 1967 amounted to $112,018,000.

6. Income taxes

It is the policy of the companies to claim maximum allowances for income tax purposes. Deferred income tax accounting is followed with respect to capital cost allowances and allowances for capitalized producing lease costs.

The companies carry on operations in all phases of the complex petroleum and petrochemical industry and the related income tax interpretations, legislation and regulations are continually changing. As a result, there are usually some tax matters in question, sometimes for large amounts. The companies have made what they believe are adequate provisions for income taxes payable.

7. Amounts owing to and from affiliated companies

At December 31, 1967 balances owing to and from affiliated companies, all of which arose in the normal course of business operations, are $30,760,000 and $3,833,000 respectively.

8. Long-term accounts receivable, investments and other assets at December 31

		1967	1966
		thousands of dollars	
Long-term accounts receivable	$	50,108	46,998
Investment in other companies, at cost:			
With quoted market value			
1967—$194,189,000; 1966—$152,240,000	$	16,012	16,012
Without quoted market value	$	8,043	8,008
Funds on deposit with governments and others	$	3,853	5,111
Government of Canada Special Refundable Tax	$	4,269	4,125
Deferred charges	$	3,363	2,806
	$	85,648	83,060

9. Long-term debt at December 31

		1967	1966
		thousands of dollars	
Imperial Oil Limited			
3% Sinking Fund Debentures, 1949 Issue, maturing December 15, 1969	$	20,000	22,500
3⅜% Sinking Fund Debentures, 1955 Issue, maturing February 1, 1975	$	32,350	34,000
Sinking Fund Requirements: $350,000 in 1969 and $2,000,000 in 1970 $2,500,000 in each of the years 1971 to 1974 inclusive			
6¾% Sinking Fund Debentures, maturing January 2, 1987	$	50,000	—
Sinking Fund Requirements: $2,500,000 in each of the years 1971 to 1986 inclusive			
	$	102,350	56,500

In January 1968 Imperial Oil Limited received the proceeds of issues of $10,000,000 7¼% Serial Debentures to mature $2,000,000 annually from January 2, 1972 to January 2, 1976 inclusive and of $40,000,000 7⅜% Sinking Fund Debentures to mature January 2, 1988. Sinking fund requirements are $2,500,000 in each of the years 1977 to 1987 inclusive. Both issues were dated January 2, 1968.

Auditors' Report to the Shareholders of Imperial Oil Limited

We have examined the Consolidated Statement of Financial Position of Imperial Oil Limited and its subsidiary companies as at December 31, 1967 and the Consolidated Statements of Earnings and Source and Use of Funds for the year then ended. Our examination was made in conformity with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1967 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants
Toronto,
March 7, 1968

Imperial Oil Limited and Subsidiary Companies

Ten Year Summary		1967	1966
Financial		dollars in thousands *except per share amounts*	
Revenues from operations and investments	$	1,319,210	1,201,297
Earnings for the year	$	95,515	92,408
per share	$	2.98	2.90
as a percentage of revenues	%	7.2	7.7
Funds from operations	$	160,442	148,727
per share	$	5.01	4.68
Income taxes	$	53,907	44,414
Other taxes charged against earnings	$	63,082	58,421
Road and other taxes collected for governments	$	195,513	196,705
Total taxes generated	$	312,502	299,540
Depreciation and amortization	$	51,970	49,245
Dividends paid	$	67,050	63,500
per share	$	2.10	2.00
as a percentage of earnings	%	70	69
Current assets	$	448,935	393,410
Less: Current liabilities	$	174,860	143,346
Working capital	$	274,075	250,064
ratio of current assets to current liabilities		2.6	2.7
Property, plant and equipment less accumulated depreciation and amortization	$	713,034	640,946
Long-term accounts receivable, investments and other assets	$	85,648	83,060
Capital employed	$	1,072,757	974,070
earnings as a percentage of capital employed at January 1	%	9.8	9.8
Less: Long-term debt	$	102,350	56,500
Other liabilities and deferred credits	$	100,369	87,423
Balance-being shareholders' investment at book value	$	870,038	830,147
per share	$	27.15	26.11
earnings as a percentage of shareholders' investment at January 1	%	11.5	11.5
Number of shares issued at year end (thousands)		32,050	31,792
Number of shareholders at year end		39,578	41,088
Number of employees at year end		14,933	14,289
Capital expenditures	$	128,668	102,761
Exploration expenditures	$	36,310	37,040

Petroleum operating statistics

	1967	1966
Petroleum products sales/*thousands of barrels per day*	370	356
Crude oil processed at refineries/*thousands of barrels per day*	350	346
Crude oil production—gross/*thousands of barrels per day*	163	146
net after royalties	141	127
Natural gas production—gross/*millions of cubic feet per day*	334	258
net after royalties	283	218

dollars in thousands *except per share amounts*

1965	1964	1963	1962	1961	1960	1959	1958
1,161,867	1,081,034	1,015,234	977,947	907,806	873,615	866,798	838,775
86,178	79,072	71,088	68,433	67,832	61,202	54,525	50,620
2.71	2.50	2.25	2.16	2.14	1.94	1.73	1.61
7.4	7.3	7.0	7.0	7.5	7.0	6.3	6.0
145,293	134,663	117,827	116,232	114,927	109,104	103,155	102,597
4.58	4.25	3.73	3.68	3.64	3.47	3.28	3.26
40,861	36,979	40,030	43,220	46,653	46,081	41,237	31,293
54,207	49,705	39,363	39,384	38,957	38,557	36,728	33,004
183,751	164,643	148,093	142,190	132,249	122,938	117,553	112,381
278,819	251,327	227,486	224,794	217,859	207,576	195,518	176,678
50,340	48,857	47,064	48,234	45,668	45,322	43,713	44,920
58,667	55,382	48,994	44,248	44,151	42,474	37,752	37,736
1.85	1.75	1.55	1.40	1.40	1.35	1.20	1.20
68	70	69	65	65	69	69	75
401,582	380,372	388,862	350,786	335,848	318,007	319,802	318,416
130,337	116,275	125,093	102,346	106,562	98,328	97,557	89,217
271,245	264,097	263,769	248,440	229,286	219,679	222,245	229,199
3.1	3.3	3.1	3.4	3.2	3.2	3.3	3.6
592,783	562,693	545,090	544,277	547,553	535,499	523,407	504,556
73,148	77,628	68,322	58,616	55,550	49,291	40,863	38,660
937,176	904,418	877,181	851,333	832,389	804,469	786,515	772,415
9.5	9.0	8.4	8.2	8.4	7.8	7.1	6.7
58,400	64,100	69,400	73,000	76,500	80,000	83,000	88,000
80,491	71,744	65,203	65,909	76,758	75,750	73,593	71,635
798,285	768,574	742,578	712,424	679,131	648,719	629,922	612,780
25.16	24.27	23.49	22.54	21.49	20.62	20.02	19.48
11.2	10.6	10.0	10.1	10.5	9.7	8.9	8.4
31,721	31,669	31,611	31,607	31,602	31,464	31,462	31,451
41,208	40,924	42,057	43,195	43,562	45,949	45,332	44,668
13,693	13,623	11,998	12,257	12,578	13,007	13,080	13,599
85,585	71,608	52,515	49,077	62,103	58,747	62,194	65,614
30,006	28,271	27,731	27,312	24,638	30,768	29,693	32,770
348	324	311	303	283	288	287	269
332	314	319	305	291	285	289	269
133	131	126	124	111	90	96	87
115	114	109	108	97	79	84	77
215	188	185	170	131	120	108	100
181	160	159	150	117	108	98	91

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